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## SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

Czechoslovakia has become the principal source of supply and the main operational base for certain US aircraft operators, whose clandestine air operations to Palestine, transporting war materiel, are still increasing. The Czechoslovak Government is participating in the contraband traffic by providing arms, ammunition and fighter aircraft for transport by air to Palestine. It is also making available airfield facilities, Security Police guards and other personnel, and is permitting US personnel to enter the country without visas.

Although clandestine air transport operations of Service Airways have been terminated in Panama, it appears that a new front organization has been established in Mexico and that Mexico has now replaced Panama as the Western Hemisphere base of these clandestine operations.

Despite the fact that the UK itself has purchased Canadian four-engine transport aircraft, in recognition of the inadequacy of present British transports, it is still exerting pressure on the Dominions to buy aircraft of British manufacture.

Greatly increased operating costs, due to China's currency inflation, have forced the two Chinese Government-controlled airlines to make drastic reductions in their services. This will seriously affect communication between Nanking and outlying parts of China as well as curtail airlift support of the Nationalist Army.

A semi-official French agency has agreed to supply at least ten small aircraft which could be used for military transport, to the Bulgarian Government.

The USSR is taking full advantage of its dominant voting position at the Danube Conference in Belgrade to override the West. Soviet disregard of the US-UK-French positions may force the West to consider withdrawal from the Conference and establishment of a separate regime for the upper Danube.

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Chinese shipping continues to deteriorate, and many companies have ceased operations. This may adversely affect the chance that Chinese inland waters will be opened to US-flag vessels.

The UK policy of removing and scrapping vessels salvaged off the British zone of Germany is being protested by US authorities in Bizonia.

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-2-

## SECTION II. CURRENT DEVELOPMENTS

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The scope of clandestine air operations to Palestine appears to be still increasing. Furthermore, the involvement of certain US airline operators with foreign Communist organs in these activities has now been positively confirmed.

Czechoslovakia has become the principal source of supply and the main operational base for the extensive underground organization engaged in the clandestine air transport of war materiel to Palestine. The extent of the Czechoslovak Government's participation in these operations is indicated by the following facts:

1.) The Czechoslovak Government has made available airfield facilities at Zatec (a military installation) and Brno, at which SERVICE AIRWAYS, its Panamanian subsidiary LAPSA, and other US air carriers have established operational bases.

2.) The evidence indicates that arms, ammunition and bombs have been provided by Czechoslovakia for transport to Palestine, presumably from the Skoda munitions works at Pilsen (about seventy kilometers from Zatec) and the Zbrojovka armament works at Brno.

3.) ME-109 fighter aircraft have been flown by Czechoslovak pilots to Zatec, where they have been disassembled and loaded for transport in US-owned aircraft.

4.) The Communist-dominated Czechoslovak Security Police have protected all US aircraft from observation, by means of constant heavy guards, when not in flight and have supervised the loading of aircraft by Czechoslovak laborers.

5.) US maintenance and flight personnel engaged in these operations are permitted to enter the country without visas when traveling on aircraft of LAPSA or Czechoslovak Airlines. In some cases, "visitor's permits" are issued by Czechoslovak authorities. In all instances, it appears that the US passports of such personnel are taken up by the Czechoslovak police upon entry. It is not yet known whether the passports are being withheld by the Czechoslovak

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-3-

Government or by the local directors of the clandestine operations, as a means of controlling their personnel. However, LAPSA officials have restricted their personnel to the environs of the airport base on the grounds that proper visas have not been obtained and with direct or implied threats of arrest by Czechoslovak police if they attempt to proceed beyond Zatec.

The apparent motive of the Czechoslovak Government in arranging for the entry of US personnel without visas is to withhold information concerning these clandestine operations from Czechoslovak diplomatic missions abroad, many of which are still staffed with officials assigned prior to the Communist coup and of doubtful loyalty to the new regime.

The recent action of the Italian Government in intercepting and impounding several contraband air shipments has resulted in the increased use of a well-established operating base at Ajaccio, Corsica as a transit point enroute from Czechoslovakia to Palestine. French controls over in-transit aircraft using Corsican facilities appear to be negligible. It is not known that the US has made representations to the French Government concerning the use of Corsican fields in this traffic.

The pattern of clandestine air transport operations in the Western Hemisphere has recently been altered. For several months early in 1948, the US-owned Service Airways operated through a Panamanian subsidiary airline Lineas Aereas de Panama (LAPSA) in order to facilitate evasion of US controls over the exportation of implements of war, including aircraft, to Palestine. At least one Constellation and nine C-46 transport aircraft are known to have reached Panama under the registered ownership of LAPSA. These aircraft are now believed to be in Europe, operating shuttle flights transporting arms, ammunition and disassembled fighter aircraft from Czechoslovakia to Palestine. Although LAPSA's Panamanian registrations are still in effect, the organization appears to have terminated its Panamanian operations in June, possibly due to an impending investigation by the Panamanian Government at US instigation.

It is now known that at least three C-46 aircraft of the parent company, Service Airways, have been transferred to Mexican registry under the alleged ownership of a Mexican airline, Proveedora Mundial. (Two of these aircraft were temporarily registered in Panama after their

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US registrations were cancelled, but they have never been reported to be operating out of Panama.) Very little is yet known of the corporate structure and ownership of Proveedora Mundial, or of its actual operations, but it is likely that this organization is serving as a front for Service Airways' illegal activities in Latin-America and that Mexico has replaced Panama as the Western Hemisphere base of clandestine operations.

Despite the fact that the UK, in recognition of the unsuitability of present British transport aircraft, (see Transportation Group Weekly, 27 July) has purchased Canadian four-engine, DC-4M's, they are now exerting pressure on at least two of the Dominions to use British-manufactured commercial transports in lieu of more efficient US types. At a recent UK-Australia-New Zealand Air Transport Conference in Wellington, for example, it was decided, at British insistence, to go ahead with the purchase of Solent flying boats for Tasman Empire Airways, although Australia and New Zealand would have preferred US pressurized land planes, and the company is already using American DC-4s on a charter basis.

Mounting operational costs have forced the two Chinese Government-controlled airlines, China National Aviation Corporation (CNAC) and Central Air Transport Corporation (CATC), to refuse future passenger reservations and to introduce radical cuts in service. Costs increased 800% between February and July 1948. The present fare, from Shanghai to Nanking (166 airline-miles), on the other hand, is only the equivalent of \$1.74 U.S. Although communication between the Capital and outlying parts of China is particularly dependent upon the air network, and air lift support for the Nationalist Army is a function of the commercial airlines, the astronomical inflation has made it almost impossible for the air lines to cover even the currency outlay for their gasoline supplies.

At least ten small French-manufactured transport aircraft are to be supplied to the Bulgarian Government by a semi-official French agency (Office Francais d'Exportation de Materiel Aeronautique) in return for Bulgarian tobacco and Egyptian pounds. While the aircraft are not outright military types, the US has made representations in Paris, and the matter has therefore created some embarrassment to the French Government.

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-5-

Finding itself at last in an international conference which it can dominate, the USSR, with evident relish, is proceeding to override the Western powers roughshod at the current Danube Conference in Belgrade. The prime USSR objective is obviously to demonstrate to the world the impotence of the US, UK and France in the face of the impregnable Soviet position at the mouth of the Danube and within the lower riparian states. In pursuance of Soviet policy the Chief of the Soviet Delegation, Vishinsky, has gone out of his way to place the Western delegations in an undignified light. Almost immediately after the Conference opening, Vishinsky succeeded in excluding English, the language of two out of four sponsoring nations (US, UK, France, USSR), from use. <sup>official</sup> He then proceeded to introduce a Soviet draft for a new Danube Convention which would not only bar the Western powers from any participation in Danube control, but would even repudiate all financial obligations of the pre-war Danube Commission.

The USSR is in a position to shut off debate in the Danube Conference, thus preventing any real discussion of the expected US or other Western proposals, and can move to the expeditious adoption of its Convention. If it does this, the Western powers may be forced to withdraw from the Conference, and after declaring the new Convention to be illegal, consider the establishment of a separate new regime to control the upper reaches of the Danube. A possible, but relatively ineffectual further move would be the submission of the issue to the International Court of Justice in order to apply the stigma of illegality against the new Soviet Danube Commission.

The best chance for a Danube arrangement which in some measure satisfies the US point of view probably lies in an attempt to drag out the Conference until the problem can be integrated into East-West negotiations for an over-all European settlement if such broad discussions materialize. There are, however, no indications yet that the USSR would be willing to permit any delay in the attainment of its obvious objectives in the Belgrade Conference.

Deterioration of transportation continues in China. In addition to contending with disruption of rail traffic and destruction of roads, the Nationalist Government now faces further deterioration of river shipping, which provide essential supply lines to the interior. Faced with runaway inflation, fuel shortages and the lack of necessary

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-6-

equipment, twenty-five companies in the Soochow area have discontinued operations and others are expected to follow shortly.

While many of the companies that are being forced out of business are probably marginal operators there is little doubt that present conditions also impose severe handicaps on the major operators such as the China Merchants Steam Navigation Company, the principal Chinese flag operator.

While the danger of collapse in Chinese shipping is not a new development it is occurring at a particularly unfortunate time from the US point of view. Prospects that the Chinese Government will lift the ban on US-flag operations in Chinese inland waters have recently improved. Now, however it is likely that Chinese shipping interests, bitterly opposing the expected Government move, will stoutly maintain that Chinese shipping, under present emergency conditions, cannot possibly withstand the loss of business to American shipping interests which would result from the arrival of US competition.

Many vessels sunk off the German coast have been raised by the British and, with the approval of the bizonal Joint Export-Import Agency, towed to the UK for dismantling and sale as scrap.

The scrapping of vessels that might be reconditioned for use in building up the German coastal fleet runs counter to the plans agreed upon by both the US and the UK for a Bizonal fleet of 400,000 tons by 1951, and the US has therefore expressed dissatisfaction with the British action.

The British assert that a US/UK agreement in April 1947 permits this disposition of all vessels sunk within the five mile limit of their zone. It is probable that the British will in the end accede to US pressure and stop this diversion of assets from the German economy.

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